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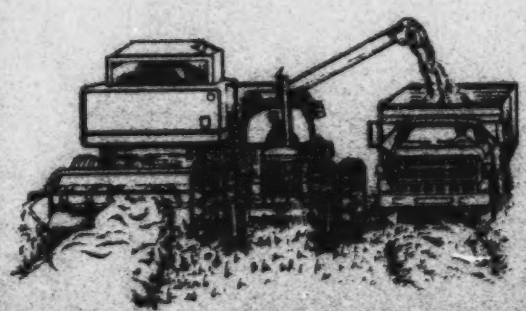

# Invest Off The Farm

## Foreward

Farmers may receive large amounts of money at different times during the year or during their lifetime. The amounts and sources of money vary as well as possibilities for using the money to purchase additional farm assets and inputs or for off-farm investments, such as term deposits, securities, mutual funds, etc.

This bulletin is designed to provide an overview of what investment opportunities are available outside of farming. The bulletin does not provide enough depth to develop expertise on the various types of investments. Rather, it summarizes the major characteristics, limitations and uses of the common forms of investment.

Consult with competent professionals before making final investment decisions. Investment dealers, as well as some banks and trust companies have counsellors available. Lawyers, tax consultants, private investment consultants, accountants, farm management specialists and trusted friends also can provide advice.

Several topics in this publication are similar to topics in the publications "Estate Planning for Farm Families" and "Income Tax Management for Farmers" produced by Saskatchewan Agriculture.

This publication was prepared by the Farm Management Section of Saskatchewan Agriculture. Appreciation is extended to the many resource people who provided information and those who reviewed the bulletin.

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# I. Introduction

Farmers make investment decisions in their farm business on a daily basis. Often a farmer may have extra cash that is not required to operate the farm, and can be invested elsewhere. Retired farmers, or those about to retire, must decide where to place their investment funds to provide long term security and income.

There are many different types of investment opportunities other than land or other farm related investments. Whether it is a short term, medium term or long term investment, careful planning is required to ensure that the investor's objectives will be fulfilled. Always compare several investment alternatives before making a final decision.

A person's investment portfolio should include a range of investments. This has the effect of spreading risk and attaining a range of investment characteristics.

Comparing Investment Alternatives
Alternative investments will have strong and weak characteristics. An individual should attempt to buy investments with characteristics that best meet his personal objectives.

## Investment Characteristics

### 1. Earnings

The earnings or rate of return that can be expected is the primary consideration in making an investment. Earnings may be in the form of interest, dividends, capital gain or profit. Interest is earned on investments such as savings accounts, term deposits, guaranteed investment certificates and mortgages. Dividends represent a distribution of a corporation's after-tax profit and is paid on the shares owned by an individual in that corporation. Capital gain or loss represents the increase or decrease in the value of a capital asset after its purchase. Profit or loss is the net earnings after all expenses have been deducted from gross income in a business activity such as a rental property, a farm, retail firm, etc.

The relative rates of return (earnings) between investment alternatives should be compared on an after-tax rather than a pretax basis. This is because the tax treatment of earnings can be different.

A successful investment is measured by the amount of income left after paying income tax (disposable income). See Section IV for specific procedures.

### 2. Risk

Risk relates to the chance of loss or gain on the original capital invested and the magnitude of a potential loss or gain.

A secure investment, that is, one with a lower risk of loss of the original investment tends to have a lower level of earnings. It also tends to have a more guaranteed return (e.g. term deposit) as compared to a more risky investment (e.g. common stocks).

The amount of risk that an individual wishes to accept as well as his financial position affects the types of investments he will choose. Risk can be minimized by having several different types of investments (your package of investments is usually referred to as your "investment portfolio"). Some investments such as guaranteed investment certificates are protected up to $60,000 per individual through the Canada Deposit Insurance Corporation. When purchasing an investment certificate, one should always determine if the investment is covered by the Canada Deposit Insurance Corporation. If not your level of risk is increased which may affect your decision about the investment.

### 3. Inflation

Inflation erodes the real value of fixed investments such as bonds, guaranteed investment certificates, insurance, mortgages, annuities and savings accounts.

Investments which increase in value during inflationary periods are preferred. Investments such as real estate, common stocks, precious metals or other tangible assets are looked upon as an inflation hedge. Keep in mind the potential for loss of investment or capital value when considering purchase of these types of investments.

### 4. Capital Gain Potential

The possibility of an increase in value of any investment is the capital gain potential. Investors, through the marketing system for an asset, will bid up its price for many reasons. These include improved earnings from the use of the asset, anticipated inflation and general economic conditions.

In most cases, investments with the greatest capital gain potential are the most risky. However, a capital gain is just as legitimate a form of earnings from an asset as interest, dividends or profit.

Investments with the most potential for capital gain should be expected to provide the investor with the greatest earnings in the long run.

### 5. Liquidity

Liquidity refers to the ease and speed with which an investment can be converted into cash. The more liquid an investment is, the more quickly it can be converted into cash.

Liquidity is a desirable characteristic in an investment, but liquid investments often earn lower rates of return.

Examples of very liquid assets are Canada Savings Bonds and savings accounts. Cash of course, is the most liquid asset. Real estate, mortgages and annuities are examples of investments which are generally not as liquid.

### 6. Cost of Investment Transactions

The cost of an investment transaction includes sales commissions, legal and accounting fees, administration fees,

and brokerage fees. Transaction costs should be considered for both the initial purchase of an investment and its eventual disposal. Transaction costs may often be hidden by means of a lower stated earnings rate on the investment. For example, there is no stated fee to purchase an annuity, however, the rate of return on the annuity is lowered to cover sales commission fees.

**7. Administration**

The amount of administrative skill and time required by an investor will vary with the type of investment. Real estate investments and stocks usually require a high level of administration and management while a Canada Savings Bond requires little administration.

**8. Personal Factors**

An investor's age, attitudes to accepting risk and financial situation have a large bearing on the types of investments which he should consider. A person that is affluent can accept more risk than one who is less affluent. A young person can afford to accept more risk than an older person, since a young person has a greater chance of being able to start over.

Some people will concentrate on certain investments because of personal enjoyment from that endeavor. It is much like a hobby for them.

# II. Types of Investments

## 1. Savings Accounts

Banks, trust companies and credit unions offer various types of savings accounts. These are short term investments that can readily be converted to cash (good liquidity). They are low in risk and generally provide a moderate rate of return.

Interest may be calculated on the minimum daily, monthly, quarterly, semi-annual or annual balance. Typically, daily interest savings accounts provide a lower rate of interest than longer term savings accounts.

Select a savings account that will maximize earnings over the year. Remember for a savings account calculated on the minimum quarterly balance, it is possible to have money in the account for more than five months without collecting interest. For example, if a deposit was made on January 10 no interest would be earned on that amount for the first quarter. Further, if the amount was withdrawn on June 20, interest would not be earned on that amount for the second quarter.

Farmers with cash surpluses for short periods of time throughout the year should have a chequing account and either a daily interest saving account or a savings account with interest calculated on the minimum monthly balance. Funds could be transferred between the chequing and savings account to maximize interest earnings over the year.

## 2. Term Deposits

Term deposits are mainly issued by banks and credit unions. There is generally a minimum investment required such as $1,000. Terms may be from a few days to up to five years. Interest rates are usually higher for longer terms. Interest may be payable monthly, semi-annually or annually. When comparing term deposits it is very important to compare the interest payment period in the total returns from the investment.

Term deposits may be liquidated at any time, however, there is normally a penalty for doing so. Term deposits may be used as collateral when arranging for credit.

## 3. Guaranteed Investment Certificates

Guaranteed Investment Certificates (GIC's) are a form of term deposit handled by trust companies, not by banks and credit unions. The interest rate is fixed to maturity and interest can be calculated annually or semi-annually.

The term "guaranteed" means that the total deposit is guaranteed by the issuing trust company.

Most trust companies are members of the Canada Deposit Insurance Corporation, CDIC, which automatically insures a guaranteed investment certificate up to $60,000 per depositor. This removes some of the risk of a trust company bankruptcy.

GIC's are harder to redeem before maturity than term deposits, but most companies will allow you to borrow against the certificate.

## 4. Canada Savings Bonds

Canada Savings Bonds are a special type of "bond" which are issued by the Government of Canada in November of each year.

Canada Savings Bonds can be cashed at any time for the face value of the bond plus accrued interest. These bonds are a medium term investment with the feature of excellent liquidity because they can be converted to cash at any time.

Canada Savings Bonds can be purchased from banks, trust companies or investment dealers in denominations as low as $100. The interest may be more or less than GIC's and term deposits.

Canada Savings bonds should be included in most investor's portfolios because of the relatively attractive level of earning and the excellent liquidity.

## 5. Securities

The two main types of securities are debt securities and ownership securities. Debt securities include bonds, debentures and notes. It is a form of investment whereby

the investor lends money to the issuer of the debt security.

Ownership securities are really stocks or shares. The investor is really a part owner of the company which issues the shares.

If an investor is not familiar with securities, advice is available from any investment dealer. Normally an investment dealer will not charge a fee for advise other than the commission for purchasing and selling the security.

**(a) Common Shares**

Common shares (also referred to as common stock) represent part ownership in a company. It gives the shareholder (investor) a claim to a proportionate share of a corporation's profits. Corporate profits paid to shareholders as dividends provide more favourable tax treatment than interest earnings. The size of a dividend payment is decided by the directors of the company but will relate to the overall profitability of the business.

Common shares are most commonly traded (bought and sold) on public stock exchanges. However, shares may be bought and sold by private negotiation if they are not traded on a public stock exchange. The sale and purchase of shares establishes a price. Share prices may rise or fall because of the interpretation buyers and sellers have of general economic conditions and conditions peculiar to that corporation. If the value of shares increases, the investor receives a capital gain. A capital loss occurs if share values decrease.

The total earnings from investments in common shares is comprised of dividend income and capital gain (loss) income. Normally investors expect to receive the greatest earnings from capital gain.

Common shares investments are known as relatively risky investments, however, there is more potential for greater total returns. Further, within common shares there is a broad range of investment risk, from highly speculative shares to relatively secure shares. High grade investment shares provide regular dividend payments with stable or gradually increasing share values. Speculative shares normally provide no current dividend payments but instead have the potential for sizeable capital appreciation. The risk of loss of equity on these shares is also quite high.

In the event that a company is dissolved or declares bankruptcy, the common shareholders are the last to be paid out. In the case of bankruptcy common shareholders may recover little or perhaps none of their investment.

**(b) Share Purchase Tax Credits**

Special types of shares may be issued by Canadian corporations which give the investor a Share Purchase Tax Credit (SPTC) which can be applied against Federal Tax Payable. The SPTC can be up to 25% of the issue price of the share. The adjusted cost base of the shares is reduced by the amount of the SPTC.

**(c) Preferred Shares**

Preferred shares have additional rights not provided on common shares. The most common extra right is that of receiving a predetermined rate of dividends from the corporation's earnings before any dividends are paid on common shares. Often the dividend is cumulative in that if corporate profits are too small to pay the stated dividend in one year, the dividends are accumulated and payable when profits are realized.

If a corporation is dissolved preferred shareholders are entitled to the recovery of their investment prior to common shareholders. Normally preferred shareholders are not entitled to any voting rights in the company's affairs.

Preferred shares are generally a less risky investment than common shares. The greatest return is from dividends rather than capital appreciation. Dividends on preferred shares are subject to the normal dividend tax treatment.

**(d) Bonds and Debentures**

Bonds and debentures are certificates of indebtedness issued by a government (federal, provincial, or municipal) or a corporation. A bond is normally secured by a specified general pledge of assets. In general, bonds are a more secure investment than debentures, however, the credit rating of the institution issuing the bond or debenture is more important in determining the level or risk.

Bonds and debentures are usually issued in multiples of $1,000 with a stipulated coupon (interest) rate. For example, a bond with a 6% coupon will return $60 of interest each year on a bond with a $1,000 par value (issue price).

After bonds are issued to investors, an investor may dispose of a bond or acquire other bonds on the open market. Bond prices may increase or decrease in relation to their par value because of a general interest rate change. A fall in general interest rates will cause bond prices to rise in relation to their par value while an increase in general interest rates will cause bond prices to fall. Bonds with longer maturities are the most sensitive to changing interest rates.

The return or yield of a bond purchased in the open market at a discount or a premium to the par value will depend on the coupon rate and the gain or loss of capital over the term of the bond. For example, if a 7% coupon bond due in eight years can be purchased for $800 (par value is $1,000), the investor will receive interest earnings of $70 per year on the original investment. He will also earn a capital gain of $200 ($1000 - $8000) as the bond can be redeemed at $1000 and the original purchase price was $8000. The interest earnings of $70 per year plus the present value of the deferred gain of $200 provides an effective current yield to maturity of 10.5%. If general interest rates changed, the value of the bond would change as well to bring the effective yield of the bond in line with general interest rates.

Investment dealers have tables to determine the yield of a bond based on its coupon rate, years to maturity and

its market value in relation to the par value.

Bonds and debentures carry a moderate to low degree of risk and will vary depending on the institution which issues the security. Investors can expect good earnings mainly through interest as well as limited potential for capital appreciation. Capital gain (loss) is determined primarily by changing general interest rates in the economy.

## 6. Mutual Funds

Mutual funds are investment companies that pool the investment funds of many investors and reinvest those funds in various securities. An investment in a mutual fund is really a method of acquiring professional management for one's investment funds. An investor can redeem his mutual fund investment for his proportionate share of the equity in the fund.

Mutual funds may have a policy of investing in only one type of security (e.g. corporate bonds or common stock) or it may have a policy of spreading its investment funds among many alternative investments. Consequently, an investor will encounter different degrees of risk depending on the mutual fund selected.

Investors should check the past performance of several mutual funds before selecting the fund in which they invest funds.

## 7. Registered Retirement Savings Plans - R.R.S.P.'s

Retirement savings plans which are registered with Revenue Canada enable an individual to reduce his immediate taxable income within certain limits and build a retirement fund. Many financial institutions (e.g. banks, credit unions, life insurance, trust, and investment companies) are authorized to handle registered retirement savings plans (R.R.S.P.). They may offer one or more plans depending on where they invest the money received. This can include bonds, preferred or common shares of Canadian and non-Canadian corporations, (subject to certain restrictions), first mortgages, and interest bearing investments. The individual's contributions are invested in such a way that the contributions and accumulated profits of the plan are not taxable until withdrawn.

Investors may establish and manage their own R.R.S.P. investments in what is called a "Self-Administered Plan". A trustee must be hired to make the investment transactions. Since a fee is charged by the trustee for its services, a large investment portfolio in a Self-Administered Fund is required to offset the fee.

Funds withdrawn from an R.R.S.P. are taxable in the year of withdrawal. A partial withdrawal of funds cannot usually be made without deregistering (cancelling) the entire R.R.S.P. This could result in a large amount of income being added to taxable income in the year of withdrawal, and consequently the R.R.S.P. funds may be taxed at a high rate.

To average out R.R.S.P. income over a number of years, a taxpayer between the ages of 60 and 71 may use the funds to purchase one of the following:

1. A life annuity which returns a minimum of one payment per year for life.

2. A life annuity with a guaranteed term which pays out throughout his life but guarantees payment for a specified number of years and pays out the balance to the estate should he die before the end of the term.

3. An annuity with a term in length equal to 90 minus the taxpayer's age.

4. A registered retirement income fund which pays out increasing amounts each year up to his 90th birthday. Any balance remaining at death (before 90) is paid out to his estate.

Generally, the more guaranteed options have lower returns. The life annuity option gives the taxpayer the most income protection. The guaranteed options protect his equity in case of death.

Two other alternatives exist for spreading out income from R.R.S.P. withdrawals. One is to have several R.R.S.P.'s each with relatively few funds, and to deregister them individually over a number of years. The other relates to the provision that funds can be transferred from one R.R.S.P. to another tax-free. A taxpayer can transfer funds from one R.R.S.P. to another so that he leaves in the first R.R.S.P. only the funds he wishes to withdraw. He then cancels that R.R.S.P. and effectively withdraws only a portion of the funds. This alternative should be used only where service charges, deregistration penalties and other fees are low enough to make it worthwhile.

A self-employed Canadian taxpayer who has not reached the age of 71 can contribute 20% of his earned income up to a maximum of $7,500 per year to registered retirement savings plans for the 1986 taxation year. Also effective in 1986, all individuals who are currently a member of a defined benefit pension plan will not be subject to a maximum contribution limit of $3500. For all individuals currently enrolled in a money purchase pension program the $3500 limit will still apply. The taxpayer's earned income includes net income, salary or wages, pension benefits, death benefits, royalties, business or rental income from real property (e.g. land and buildings) less any business or rental losses. Earned income does not include investment income such as stocks, bonds, mutual funds, guaranteed investment certificates and bank accounts. Capital gain is also excluded. At the time of writing this publication, the federal government has announced its intentions to increase the the maximum contribution limit for self employed individuals. The increased limits for the next four years will be as follows.

The lesser of 18% of earned income and:

| Year | Limit |
|---|---|
| 1987 - | 9,500 |
| 1988 - | 11,500 |
| 1989 - | 13,500 |
| 1990 - | 15,500 |

After the year 1990, an annual indexing of this final amount will occur. Readers are cautioned to check current rules and regulations before investing in R.R.S.P.'s.

Another important note to make is that any unused contribution to an R.R.S.P. may now be carried forward up to seven years.

Contributions made during the year and within sixty days after the year-end are eligible as deductions from income.

A husband may contribute all or part of his allowable amount to an R.R.S.P. for his wife. This allows husband and wife to split their retirement income and usually reduces the total tax payable since they usually have higher total deductions as individuals than as a couple. For example, if both husband and wife have life annuities purchased from R.R.S.P. funds, they could each use the $1,000 pensions income exemption for which the annuity payments qualify. If the wife does not have a plan, only the husband could use this deduction. Since March 31, 1977, if the wife withdraws from the plan within three years of the husband's contribution, the withdrawal will be taxed as income of the husband.

At death, the fair market value of a Registered Retirement Savings Plan or Registered Retirement Income Fund or annuity are taxable income to the estate. However, if the benefits are transferred to a spouse or dependent child or grandchild the tax is deferred.

Of particular interest to farmers is that registered savings plans are not assignable and, therefore, cannot be used as collateral when borrowing money. Another thing to consider is that fixed contracts, whereby equal annual payments are made to a plan may be undesirable because the tax advantage will be almost non-existent in years of low taxable income.

Whether or not a farm is well-established is an important factor in deciding if the registered retirement savings plan is the best use of the operator's money. If a farmer can profitably expand or improve his farm business an R.R.S.P. may be of little benefit, especially if he is in a lower income tax bracket. A farmer may gain the same income deduction for buying farm inputs, such as fertilizer, as he would for investing the same amount in a R.R.S.P., and the farm inputs may be a better investment.

Since there are many different options available it is advisable to compare the plans of several companies to find the one most suitable for the individual circumstances. Factors to consider are the loading fees when the plan is purchased, annual service charges, penalties for deregistering, notice required prior to withdrawing from the plan and past performance of the plan. It may be important whether the company handles the purchases of a life annuity or if the plan holder does this.

## 8. Single Premium Deferred Annuities

A single premium deferred annuity is a plan in which one fixed sum is invested initially and where benefits in the form of annuity payments begin at some stipulated future time (e.g. retirement age).

The initial premium is not a deductible tax expense. The accrued interest earned on an annuity purchased after 1981 must be reported as taxable income every three years. For deferred annuities purchased prior to 1982, the first reporting year for the accrued interest is 1987.

Taxation rules prior to 1982 were such that the interest could accrue tax-free until funds were withdrawn from the deferred annuity.

Current taxation rules make the purchase of single premiums deferred annuities much less attractive.

## 9. Real Estate

Real Estate refers to land and the buildings and improvements located on it. Real estate may be purchased for the purpose of producing rental income and/or capital gain. Examples of real estate investments are rental hours in, duplexes, townhouses, apartment buildings, commercial and industrial property.

Real estate may be purchased to operate a business for profit or potential capital gain. For example, the purchase of a motel, restaurant or retail store could be an investment as well as a producer of income.

Real estate investments are a good hedge against inflation. Their values usually keep pace with inflation. However, the investment is more difficult to liquidate and a greater level of administration and management is required to maintain a profitable investment.

## 10. Life Insurance

Permanent life insurance is an investment since interest and dividends are paid on the premiums. However, the investor should carefully compare the returns available to determine if other investments could be more profitable. Term insurance is not an investment, although it is an excellent way of providing protection if the family breadwinner dies.

As protection for dependants, life insurance is a valuable estate planning tool especially for young farmers who have low equity and have important family responsibilities. The cost of life insurance increases with age. The need for life insurance usually increases as net worth increases.

## 11. Art, Antiques and Collectibles

Most people who "invest" in art, antiques and collectibles do so for the pride, joy and satisfaction of ownership, not only for monetary gain. Many hobbyists enjoy seeking out

articles of interest, adding to their collections and owning rare, unusual, nostalgic or historical items.

In building their collections, hobbyists may earn substantial capital gain. In recent years, collections have increased in value appreciably as collectors have invested more in art, antiques and collectibles. Capital gain, in many cases, has been higher for this type of investment than many others.

The common investments are stamps, coins, antiques, books, paintings, drawings, objects of art, silver, porcelain, jewelry, classic cars and wine. There are also more unusual investments such as antique farm equipment, tools, barbed wire and power line insulators.

To invest wisely in this area, the investor must be well-informed about the particular article he buys.

## 12. Commodities

Commodity exchanges (futures markets) exist to shift the risk of ownership of commodities and to improve the overall performance in the marketing of a commodity. On a commodity exchange, contracts for future delivery or acceptance of delivery of a commodity of a fixed quantity and quality are bought and sold. The trading establishes a price. Prices of futures contracts can change quickly and by large amounts, which provides an opportunity to make or lose money.

Hedgers, as well as speculators, use the commodity markets. A hedger either presently owns the physical commodity or will own the physical commodity at some date in the future. By buying or selling a futures contract, a hedger can eliminate the risk of losing money on the commodity he now owns or will eventually own.

Commodity market speculators do not own commodities. They hope to realize a profit on a futures transaction by buying a contract now and later on selling it at a higher price or by selling a contract and later on buying it back at a lower price.

Substantial gains and losses can be realized on commodity transactions. It is a highly speculative investment alternative. A great deal of knowledge of commodity markets and buying and selling strategies is necessary to make profits as a commodity speculator.

## 13. Mortgages

Mortgages are an investment alternative that are similar in nature to bond investments. Interest returns are relatively attractive on first mortgages. Second mortgages provide higher returns but there is more risk.

Mortgages can be difficult to liquidate. The mortgage may have to be sold at a discount if interest rates have risen since the mortgage was granted. For this reason a mortgage is a poor hedge against inflation. However, if interest rates declined a premium could be earned if the mortgage was sold.

A major disadvantage of a mortgage is the time and cost for foreclosure if the mortgagor defaults on payments.

## 14. Tax Shelter Investment

Tax shelters such as Canadian films and oil and gas research and development should be considered in the same way as any other investment. The immediate tax savings are a consideration in investing in a tax shelter, but future earnings are necessary to make the investment attractive. Always compare investments on an after-tax basis.

## 15. Venture Capital Corporations (V.C.C.)

Saskatchewan residents, either individually or through a group, can pool their capital to form a Venture Capital Corporation and at the same time earn a tax credit which can be applied against Saskatchewan Tax Payable.

The tax credit is equal to 30% of the investment in a Venture Capital Corporation. Unused credits can be carried forward for up to seven years.

Venture Capital Corporations must pay back the tax credit received if the corporation does not remain in operation for a full five years. At the completion of five years, a V.C.C's refundable tax credit is eliminated.

Venture Capital Corporations must invest their capital in equity shares of eligible small businesses in Saskatchewan.

## 16. Investing in Livestock

Saskatchewan residents may earn a Livestock Investment Tax Credit by investing in livestock. The tax credit may be used to reduce Saskatchewan Tax Payable. Unused tax credits may be carried forward for up to seven years. Tax credits are $25.00 per head of slaughter cattle, $3 per head of slaughter hogs, and $2 per head of slaughter lambs.

All Saskatchewan residents, whether farmers or not, are eligible to participate. This includes individuals, partnerships, cooperatives and corporations. The livestock must be fed for a minimum period in Saskatchewan and be sold for slaughter in Saskatchewan or out of province at a federally inspected packing plant after March 22, 1984.

The Saskatchewan Government has also implemented a 15% tax credit on improvements or construction of livestock facilities in the province. This program entitled, "The Livestock Facilities Tax Credit Program" would provide a reduction from net Saskatchewan tax payable equal to 15% of any construction on new or existing livestock facilities in Saskatchewan.

Any unused portion of this credit may be carried forward up to seven years.

## III. Selecting Investments

There is no single answer to the question "What is the best investment?" Every person has different needs and attitudes towards such factors as lifestyle and risk.

Table 1 compares most of the investments discussed according to income, capital gain potential, liquidity, risk and administration. Ratings of low, medium and high are assigned to each. For example, a savings account has a medium income rating, has low capital gain potential, is high in liquidity, is a low risk, and requires low administration. A guaranteed investment certificate differs from a savings account in that its income potential is high and its liquidity is low. By selecting one of the two investments, there is a trade-off between income and liquidity.

The ratings indicate how the majority of investments in each category perform. Some actual investments in each category may be worse or better than the rating indicated. Before selecting an investment, consider more detailed information in the previous sections of the bulletin and gain a better understanding from further reading, research and advice from professionals.

The proper type of investment for farmers varies greatly with their individual situation. The five following situations illustrate this:

### 1. Beginning Farmers

Young beginning farmers usually have high debt loads and any extra capital is best invested in the farm. They may have excess cash for short periods of time (less than one year). A savings account or term deposit can be used to provide interest earnings on periodic cash surpluses.

The benefits of short term investment is demonstrated in this example. A sum of $10,000 is received on January 2. The money will be needed on May 1 for farm operating costs. A short term deposit for 119 days (January 2 - May 1) at 9.0% will return:

$$\frac{\$10{,}000 \times 9.0\% \times 119}{365} = \$293.42$$

### 2. Established Farmers with Periodic Cash Surpluses

Established farmers may have annual cash surpluses which are not needed to purchase yearly inputs. The money may be needed in five years to replace worn out equipment or perhaps to purchase a new house. Term deposits, Guaranteed Investment Certificates or Canada Savings Bonds will provide a reasonable and secure return. A portion of the cash could be invested in common or preferred shares. The risk is higher but the potential for gain is higher as well.

Table 1 Characteristics of Investments
Low - L
Medium - M
High - H

| | Income | Capital Gain Potential | Liquidity | Risk | Administration |
|---|---|---|---|---|---|
| Cash | L | L | H | L | L |
| Savings Account | M | L | H | L | L |
| Term Deposits | H | L | H | L | L |
| Guaranteed Investments Certificates | H | L | L | L | L |
| Canada Savings Bonds | H | L | H | L | L |
| Securities: | | | | | |
| - Common Shares | M | H | H | H | H |
| - Preferred Shares | H | M | H | M | H |
| - Bonds or Debentures | H | L | M | L | M |
| Mutual Funds | M | M | M | M | M |
| Single Premium Deferred Annuities | H | L | L | L | L |
| Real Estate | M | H | L | H | H |
| Life Insurance | L | L | M | L | L |
| Art, Antiques & Collectibles | L | H | M | M | H |
| Commodity Markets | L | H | H | H | H |
| Mortgages | H | L | L | L | L |

### 3. Established Farms with Long Term Cash Surpluses

Established farmers with money that will never be required in the farm business should consider other investments besides those providing interest earnings. Consideration should be given to common and preferred shares, bonds, debentures, mutual funds and real estate. R.R.S.P.'s should be included to provide an alternative retirement income source.

Several different investments should be selected to give a diversified portfolio. This will minimize risk and provide alternative forms of earnings (interest, dividends, capital gain, profit).

### 4. Farmers Preparing for Retirement

Farmers who will retire in five to ten years should consider investments that will provide them with a retirement style and income to meet their needs. The purchase of a retirement home at this time and renting it out may be considered. It is a good investment during inflationary periods.

R.R.S.P.'s should be part of the investment portfolio. Both a husband and wife should have R.R.S.P. investments to take advantage of the Pension Income Deduction at age 65.

### 5. Retired Farmers

Farmers about to retire should consider the alternative ways of handling their farm investments as well as other inventories. There are three alternatives (or combinations of these) for handling farm assets:

i) The land is not sold but it is leased to provide an annual income. The sale of machinery, equipment and inventories will provide a source of liquid capital to purchase a retirement home, or for the purchase of investments that provide high income and minimize risk.

The investment in land is an excellent hedge against inflation. Since the retired person was previously a farmer, the administration of the rental property will not be difficult.

Remember that landowners who rent land to anyone other than a spouse or child may not qualify for the capital gain rollover under the Income Tax Act when land is transferred to a child. Landowners may want to consider a custom farming arrangement to avoid this tax problem. Further tax implications of capital gains will be discussed in a later section.

ii) If the land (or part of it) is sold, then the funds must be invested elsewhere. The emphasis should be on income and minimizing risk when selecting investments. More risky investments could be considered if there is a large amount of funds and there is satisfactory current income. More risky investments should comprise a small portion of the total portfolio.

Another alternative is to sell the land by way of agreement for sale or mortgage. Payments of interest and principal on the agreement for sale or mortgage provide income for the retired farmer. Agreements for sale or mortgages are not liquid. If the land purchaser defaults in payments, it can be difficult and costly in time and money to foreclose. This type of investment is more common in family farm inter-generational transfers.

iii) A common situation for retiring farmers is to have large sums of both taxable and non-taxable money from sales of land, buildings, equipment and inventories. Before buying any investment it is very important to shop around and consult knowledgeable people. This process may take some time, therefore, invest in term deposits until more permanent investments are made.

In selecting investments consider the favourable tax treatment of capital gains and dividend income. Attitudes towards risk and speculation will effect investment decisions. Never rush into investments; take time to consider what is best for your situation and be sure your money is always working for you.

## IV. Taxation of Investments

### 1. Income Tax Rates

Canadian income tax rates are based on a "progressive" tax system. In other words, a high income is taxed at a higher percentage than a low income.

A tax bracket is the range of taxable income for which the same rate of tax applies. The tax brackets apply only to the "marginal" tax rate, the tax rate that applies to an additional dollar of income. The "average" tax rate is the total tax payable as a percentage of the taxable income. It increases steadily, not in brackets.

The following example clarifies the difference between the marginal and average tax rates:

| Example | No. 1 | No. 2 |
|---|---|---|
| Net Income | $29,000 | $30,000 |
| Less: | | |
| Personal Exemptions | 8,000 | 8,000 |
| Equals: Taxable Income | $21,000 | $22,000 |
| Income Tax Payable | 5,709 | 6,056 |
| Income Tax Rates: | | |
| Marginal | 34.7% | 34.7% |
| Average | 27.2% | 27.5% |

In this example, the marginal rate of 34.7% applies to all taxable income between $17,332 and $22,284. An extra dollar of income in this range is taxed 34.7 cents. The added income in Example No. 2 is taxed at the same marginal rate but results in a higher average tax rate because there is more income taxed at the marginal rate of 34.7%.

## Income Tax Rates - 1986

Income tax rates are comprised of a federal and provincial portion. The federal tax rates usually remain the same each year, however, the tax brackets are indexed each year to account for inflation. The following discussion illustrates the federal and provincial tax rates for 1986 along with any applicable surtaxes and/or flat taxes.

The federal income tax rates for 1986 are illustrated in table II.

Table II
Federal Rates of Tax - 1986

| Taxable Income | Tax | On Next |
|---|---|---|
| $ 0 | $ 0 + 6% | $ 1,305 |
| 1,305 | 78 + 16% | 1,306 |
| 2,611 | 287 + 17% | 2,610 |
| 5,221 | 731 + 18% | 2,611 |
| 7,832 | 1,201 + 19% | 5,222 |
| 13,054 | 2,193 + 20% | 5,221 |
| 18,275 | 3,237 + 23% | 5,221 |
| 23,496 | 4,438 + 25% | 13,054 |
| 36,550 | 7,702 + 30% | 26,107 |
| 62,657 | 15,534 + 34% | Excess |

In addition to the federal tax rates on taxable income, a surtax on federal tax payable is now in place. The surtax is applied against federal tax payable as follows.

| Basic Federal Tax | Surtax (%) |
|---|---|
| Under 6001 | 1 1/2 |
| Between 6001 - 15000 | 6 1/2 |
| Over 15000 | 11 1/2 |

By adding the federal tax payable and the applicable surtax, a person is able to calculate the federal portion of his tax payable.

The Saskatchewan tax payable for 1986 is 50% of the federal tax payable. This figure added to a flat tax of 1% of net income equals Saskatchewan tax payable.

A number of personal exemptions exist both federally and provincially which enable a person to decrease his tax payable. These exemptions must be used in the calculations of a person's total dollars payable. Table III represents the federal exemptions available for 1986.

An investor may determine his total tax payable by utilizing these 1986 tax rates and applying any necessary exemptions. By using these rates an individual can determine both the marginal and average tax rate for his particular financial situation.

Table III
Personal Exemptions
(Federal)

| | 1986 |
|---|---|
| Single individual | 4,180 |
| Spouse | 3,660 |
| Married status | $ 7,840 |
| Income limit of spouse | 520 |
| Child under 18 | 710 |
| Income limit of child under 18 | 2,760 |
| Child 18 or over | 1,420 |
| Income limit of child 18 or over | 1,340 |
| Child 18 or over and mentally or physically infirm | 1,440 |
| Income limit | 2,740 |
| Over 64 | 2,610 |
| Blind or disabled | 2,610 |
| Refundable child tax credit per child | 454 |
| Threshold family income for full refundable child tax credit benefits | 23,500 |
| Maximum Canada Pension Plan Contribution — employee | 419.40 |
| self-employed | 838.80 |

## 2. Comparison of Interest, Dividends and Capital Gain

Interest Income - is taxable in the year received unless the taxpayer follows the "accrued" system of reporting interest earnings. A three-year accrual rule now applies to accrued interest that has not previously been reported this interest now must be added to taxable income.

Dividends - received from taxable Canadian corporations qualify for preferred tax treatment. The combination of the method of reporting dividend income and a dividend tax credit results in a taxpayer paying less tax on dividend income than on interest income.

Capital Gain - is the amount received on the sale of an asset which exceeds its original purchase price. Capital gains (or losses) can occur on shares, bonds, real estate,

etc. Only one- half of capital gain is taxable. Consequently, capital gain is subject to preferential tax treatment as well.

The May 1985 Federal Budget introduced a complete revision of taxation of capital gains. Introduced in this budget was a 500,000 lifetime capital gains exemption. This is equivalent to 250,000 of taxable capital gains. This exemption applies to capital gains realized on or after January 1,1985.

The $500,000 exemption is applied differently to two different categories of capital gains. "Qualified farm property" is immediately eligible for the full 500,000 exemption. Qualified farm property is defined as:

1. Farm land and buildings currently used in a farming business by the land owner, his spouse, or his child.

2. Farm land and buildings that were used for five or more years after 1971 in a farming business by the owner, his spouse or his child.

3. Shares in a farming operation or interest in a farming partnership.

For all other investments such as stocks, bonds, and real estate the $500,000 exemption is cumulative. The exemption is phased in using the following schedule:

| | Capital Gain | Taxable Capital Gain |
|---|---|---|
| 1985 | 20,000 | 10,000 |
| 1986 | 50,000 | 25,000 |
| 1987 | 100,000 | 50,000 |
| 1988 | 200,000 | 100,000 |
| 1989 | 300,000 | 150,000 |
| 1990 | 500,000 | 250,000 |

An example of how this works can be illustrated by looking at an investor having a taxable capital gain of $120,000 in 1988. Assuming he hadn't used any of the exemption he would have to pay tax on $20,000 of capital gain.

The treatment of capital losses has also been altered by this new capital gain structure. Both allowable business investment losses and capital losses have been changed in the following way.

An allowable business investment loss is a loss incurred from an action such as the trading of a commodity or security. A loss of this type may be claimed in full in the year it is incurred. The change is that now this full amount must be brought back into ordinary income when a capital gain is realized.

A capital loss is a loss which arises from the sale of a capital asset such as farm land. This type of loss may not be claimed in the year it is incurred but instead it is accumulated and used to offset any future capital gains. All capital losses are now put in a pool and not utilized until a capital gain is realized.

It is clear that this capital gain exemption will make certain investments much more attractive. An investor's cumulative schedule should always be considered when off-farm investments are purchased.

An interest, dividends and capital gains deduction of up to $1,000 applies to interest from Canadian sources, dividends from taxable Canadian corporations and taxable capital gains realized on the sale of Canadian securities or mutual fund shares.

The after-tax return, rather than pretax amount should be used in comparing returns from interest, dividends and capital gain. It is important for an investor to utilize the capital gains exemptions as much as possible to maximize after tax returns. Table IV has been added to indicate the relative rate of returns needed for dividends and interest to give the same after tax return. This example assumes the investor does not use the capital gains exemption on the dividend income involved.

Table IV

Dividend and Equivalent Interest Yields After Tax

| Dividend Yield | Equivalent Interest Yield After Taxes |
|---|---|
| 2% | 3% |
| 4% | 6.1% |
| 6% | 9.2% |
| 8% | 12.2% |
| 10% | 15.2% |
| 12% | 18.2% |

Example: on an after-tax basis, a stock yielding 6% is equivalent to a term deposit yielding about 9.2%.

## 3. Taxation of Rental Income

The net income from rental property is taxable as regular income. Net income is the gross income from rental and other sources less operating costs (including interest on loans and mortgages on the property) and capital cost allowance. A rental loss can be used to offset other income sources subject to restrictions on the amount claimed for capital cost allowance. Capital cost allowance may not be used to create or increase a rental loss.

When rental property is subsequently sold, there may be capital gain and recaptured capital cost allowance to contend with for taxation purposes.

## 4. Interest Expenses on Loans to Purchase Investments

Interest on money borrowed to purchase registered retirement savings plans, registered pension plans, or income averaging annuity contracts may not be claimed as an expense for taxation purposes. Interest on loans for other investment purposes may be claimed in full as a tax deductible expense. However, such interest may reduce the interest, dividends and capital gains deduction.

# Appendix A

## Compound Interest Tables

Tables V and VI can be used to calculate the growth of an investment for various interest rates and years of investment. Table VII can be used to determine the income from an annuity.

Table V indicates the future value of $1.00 invested today at various interest rates and investment periods. For example, $1.00 invested now at 8% will accumulate to $3.172 in 15 years, because of interest earnings and the compounding effect of interest earnings. For investments other than $1.00, multiply the factor by the size of the investment.

Table VI indicates the future value of $1.00 invested every year at various interest rates and periods of time. For example, if $1.00 was invested every year for 10 years at an interest rate of 10%, it will accumulate with compounding to $15,937 at the end of 10 years.

Table VII can be used to determine annuity payments. For example, if an investor invested $50,000 into an annuity today with 20 annual payments and with an interest rate of 9%, the annual income would be 50,000 x .1095 = $5,475.

The Rule of 72 can be used to determine the number of years it would take an investment to double itself at various interest rates. When the number 72 is divided by the interest rate, the result in the number of years for a doubling to occur. If the interest rate was at 6%, an investment would double itself in 72 divided by 6 = 12 years.

# Appendix B

## Reference Books on Investments


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11. Investment Terms and Definitions. Toronto, Ontario. The Canadian Securities Institute, 1976.

12. Mariom, Lucien F. Understanding Investment - A Primer for Wives, Widows and Other Capitalists. Seattle, Washington, The University of Washington Press, 1964.

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## Table V

### Accumulated Value of $1 (1 Payment Only)

**Interest Rate (%)**

| YEARS | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.0500 | 1.0600 | 1.0700 | 1.0800 | 1.0900 | 1.1000 | 1.1100 | 1.1200 | 1.1300 | 1.1400 | 1.1500 | 1.1600 | 1.1700 | 1.1800 |
| 2 | 1.1025 | 1.1236 | 1.1449 | 1.1664 | 1.1881 | 1.2100 | 1.2321 | 1.2544 | 1.2769 | 1.2996 | 1.3225 | 1.3456 | 1.3689 | 1.3924 |
| 3 | 1.1576 | 1.1910 | 1.2250 | 1.2597 | 1.2950 | 1.3310 | 1.3676 | 1.4049 | 1.4429 | 1.4815 | 1.5209 | 1.5609 | 1.6016 | 1.6430 |
| 4 | 1.2156 | 1.2625 | 1.3108 | 1.3605 | 1.4116 | 1.4641 | 1.5181 | 1.5735 | 1.6305 | 1.6890 | 1.7490 | 1.8106 | 1.8739 | 1.9388 |
| 5 | 1.2736 | 1.3382 | 1.4026 | 1.4693 | 1.5386 | 1.6105 | 1.6851 | 1.7623 | 1.8424 | 1.9254 | 2.0114 | 2.1003 | 2.1924 | 2.2878 |
| 6 | 1.3401 | 1.4185 | 1.5007 | 1.5867 | 1.6771 | 1.7716 | 1.8704 | 1.9738 | 2.0820 | 2.1950 | 2.3131 | 2.4364 | 2.5652 | 2.6996 |
| 7 | 1.4071 | 1.5036 | 1.6058 | 1.7138 | 1.8280 | 1.9487 | 2.0762 | 2.2107 | 2.3526 | 2.5023 | 3.6600 | 2.8262 | 3.0012 | 3.1855 |
| 8 | 1.4774 | 1.5938 | 1.7182 | 1.8509 | 1.9926 | 2.1436 | 2.3045 | 2.4760 | 2.6584 | 2.8526 | 3.0590 | 3.2784 | 3.5115 | 3.7589 |
| 9 | 1.5513 | 1.6895 | 1.8385 | 1.9990 | 2.1719 | 2.3579 | 2.5580 | 2.7731 | 3.0040 | 3.2519 | 3.5179 | 3.8030 | 4.1084 | 4.4355 |
| 10 | 1.6289 | 1.7908 | 1.9672 | 2.1589 | 2.3674 | 2.5937 | 2.8394 | 3.1058 | 3.3946 | 3.7072 | 4.0456 | 4.4114 | 4.8068 | 5.2338 |
| 11 | 1.7103 | 1.8983 | 2.1049 | 2.3316 | 2.5804 | 2.8531 | 3.1518 | 3.4785 | 3.8359 | 4.2262 | 4.6524 | 5.1173 | 5.6240 | 6.1759 |
| 12 | 1.7959 | 2.0122 | 2.2522 | 2.5182 | 2.8127 | 3.1384 | 3.4984 | 3.8960 | 4.3345 | 4.8179 | 5.3503 | 5.9360 | 6.5801 | 7.2876 |
| 13 | 1.8856 | 2.1329 | 2.4098 | 2.7196 | 3.0658 | 3.4523 | 3.8833 | 4.3635 | 4.8980 | 5.4924 | 6.1528 | 6.8858 | 7.6987 | 8.5994 |
| 14 | 1.9799 | 2.2609 | 2.5785 | 2.9372 | 3.3417 | 3.7975 | 4.3104 | 4.8871 | 5.5348 | 6.2613 | 7.0757 | 7.9875 | 9.0075 | 10.1472 |
| 15 | 2.0789 | 2.3966 | 2.7590 | 3.1722 | 3.6425 | 4.1772 | 4.7846 | 5.4736 | 6.2543 | 7.1379 | 8.1371 | 9.2655 | 10.5387 | 11.9737 |
| 16 | 2.1829 | 2.5403 | 2.9522 | 3.4259 | 3.9703 | 4.5950 | 5.3109 | 6.1304 | 7.0673 | 8.1372 | 9.3576 | 10.7480 | 12.3303 | 14.1290 |
| 17 | 2.2920 | 2.6928 | 3.1588 | 3.7000 | 4.3276 | 5.0545 | 5.8951 | 6.8660 | 7.9861 | 9.2765 | 10.7613 | 12.4677 | 14.4265 | 16.6722 |
| 18 | 2.4066 | 2.8543 | 3.3799 | 3.9960 | 4.7171 | 5.5599 | 6.5436 | 7.6900 | 9.0243 | 10.5752 | 12.3755 | 14.4625 | 16.8790 | 19.6733 |
| 19 | 2.5270 | 3.0256 | 3.6165 | 4.3157 | 5.1417 | 6.1159 | 7.2633 | 8.6128 | 10.1974 | 12.0557 | 14.2318 | 16.7765 | 19.7484 | 23.2144 |
| 20 | 2.6533 | 3.2071 | 3.8697 | 4.6610 | 5.6044 | 6.7275 | 8.0623 | 9.6463 | 11.5231 | 13.7435 | 16.3665 | 19.4608 | 23.1056 | 27.3930 |
| 21 | 2.7860 | 3.3996 | 4.1406 | 5.0338 | 6.1088 | 7.4002 | 8.9492 | 10.8038 | 13.0211 | 15.6676 | 18.8215 | 22.5745 | 27.0336 | 32.3238 |
| 22 | 2.9253 | 3.6035 | 4.4304 | 5.4365 | 6.6586 | 8.1403 | 9.9336 | 12.1003 | 14.7138 | 17.8610 | 21.6447 | 26.1864 | 31.6293 | 38.1421 |
| 23 | 3.0715 | 3.8197 | 4.7045 | 5.8715 | 7.2579 | 8.9543 | 11.0263 | 13.5523 | 16.6266 | 20.3616 | 24.8915 | 30.3762 | 37.0062 | 45.0080 |
| 24 | 3.2251 | 4.0489 | 5.0724 | 6.3412 | 7.9111 | 9.8497 | 12.2392 | 15.1786 | 18.7881 | 23.2122 | 28.6252 | 35.2364 | 43.2973 | 53.1090 |
| 25 | 3.3864 | 4.2919 | 5.4274 | 6.8485 | 8.6231 | 10.8347 | 13.5855 | 17.0001 | 21.2305 | 26.4619 | 32.9189 | 40.8742 | 50.6578 | 62.6686 |
| 26 | 3.5557 | 4.5494 | 5.8074 | 7.3965 | 9.3992 | 11.9182 | 15.0799 | 19.0401 | 23.9905 | 30.1666 | 37.8568 | 47.4141 | 59.2697 | 7.39490 |
| 27 | 3.7335 | 4.8223 | 6.2139 | 7.9881 | 10.2451 | 13.100 | 16.7386 | 21.3249 | 27.1093 | 34.3900 | 43.5353 | 55.0004 | 69.3455 | 87.2598 |
| 28 | 3.9201 | 5.1117 | 6.6488 | 3.6271 | 11.1671 | 14.4210 | 18.5799 | 23.8839 | 30.6335 | 39.2045 | 50.0656 | 63.8004 | 81.1342 | 102.9666 |
| 29 | 4.1161 | 5.4184 | 7.1143 | 9.3173 | 12.1722 | 15.8631 | 20.6237 | 26.7499 | 34.6158 | 44.6931 | 57.5755 | 74.0085 | 94.9271 | 121.5005 |
| 30 | 4.3219 | 5.7435 | 7.6122 | 10.0627 | 13.2677 | 17.4494 | 22.8923 | 29.9600 | 39.1159 | 50.9502 | 60.2118 | 85.8499 | 111.0647 | 143.3706 |
| 40 | 7.0400 | 10.2857 | 14.9744 | 21.7245 | 31.4094 | 45.2593 | 65.0009 | 93.0510 | 132.7816 | 188.8835 | 267.8635 | 378.2712 | 533.8687 | 750.3783 |
| 50 | 11.4674 | 18.4202 | 29.4570 | 46.9016 | 74.3575 | 117.3908 | 184.5648 | 289.0022 | 450.7359 | 700.2330 | 1083.7574 | 1670.7038 | 2566.2153 | 3927.3569 |

**Example** - $100.00 invested now at 8% compound annually for 30 years would accumulate to (10.062)
($100) = $1,006.27.

## Table VI

### Accumulated Value of $1 (1 Payment Per Year)

**Interest Rate (%)**

| YEARS | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| 2 | 2.0500 | 2.0600 | 2.0700 | 2.0800 | 2.0900 | 2.1000 | 2.1100 | 2.1200 | 2.1300 | 2.1400 | 2.1500 | 2.1600 | 2.1700 | 2.1800 |
| 3 | 3.1525 | 3.1836 | 3.2149 | 3.2464 | 3.2781 | 3.3100 | 3.3421 | 3.3744 | 3.4069 | 3.4396 | 3.4725 | 3.5056 | 3.5389 | 3.5724 |
| 4 | 4.3101 | 4.3746 | 4.4399 | 4.5061 | 4.5731 | 4.6410 | 4.7097 | 4.7793 | 4.8498 | 4.9211 | 4.9934 | 5.0665 | 5.1405 | 5.2154 |
| 5 | 5.5256 | 5.6371 | 5.7507 | 5.8666 | 5.9847 | 6.1051 | 6.2278 | 6.3528 | 5.4803 | 5.6101 | 6.7424 | 6.8771 | 7.0144 | 7.1542 |
| 6 | 6.8019 | 6.9753 | 7.1533 | 7.3359 | 7.5233 | 7.7156 | 7.9129 | 8.1152 | 8.3227 | 8.5355 | 8.7537 | 8.9775 | 9.2068 | 9.4419 |
| 7 | 8.1420 | 8.3938 | 8.6540 | 8.9228 | 9.2004 | 9.4872 | 9.7833 | 10.0890 | 10.4047 | 10.7305 | 11.0668 | 11.4139 | 11.7720 | 12.1415 |
| 8 | 9.5491 | 9.8975 | 10.2598 | 10.6366 | 11.0285 | 11.4359 | 11.8594 | 12.2997 | 12.7573 | 13.2328 | 13.7268 | 14.2401 | 14.7733 | 15.3270 |
| 9 | 11.0266 | 11.4913 | 11.9780 | 12.4876 | 13.0210 | 13.5795 | 14.1640 | 14.7757 | 15.4157 | 16.0853 | 16.7858 | 17.5185 | 18.2847 | 19.0859 |
| 10 | 12.5779 | 13.1808 | 13.8164 | 14.4866 | 15.1929 | 15.9374 | 16.7220 | 17.5487 | 18.4197 | 19.3373 | 20.3037 | 21.3215 | 22.3931 | 23.5213 |
| 11 | 14.2068 | 14.9716 | 15.7836 | 16.6455 | 17.5603 | 18.5312 | 19.6514 | 20.6546 | 21.8143 | 23.0445 | 24.3493 | 25.7329 | 27.1999 | 28.7551 |
| 12 | 15.9171 | 16.8699 | 17.8884 | 18.9771 | 20.1407 | 21.3843 | 22.7132 | 24.1331 | 25.6502 | 27.2707 | 29.0017 | 30.8502 | 32.8239 | 34.9311 |
| 13 | 17.7130 | 18.8821 | 20.1406 | 21.4953 | 22.9534 | 24.5227 | 26.2116 | 28.0291 | 29.9847 | 32.0887 | 34.3519 | 36.7862 | 39.4040 | 42.2187 |
| 14 | 19.5986 | 21.0150 | 22.5505 | 24.2149 | 26.0192 | 27.9750 | 20.0949 | 32.3926 | 34.8827 | 37.5811 | 40.5047 | 43.6720 | 47.1027 | 50.8180 |
| 15 | 21.5786 | 23.2760 | 25.1290 | 27.1521 | 29.3609 | 31.7725 | 34.4054 | 37.2797 | 40.4175 | 43.8424 | 47.5804 | 51.6595 | 56.1101 | 60.9653 |
| 16 | 23.6575 | 25.6725 | 27.8880 | 30.3243 | 33.0034 | 35.9497 | 39.1899 | 42.7533 | 46.6717 | 50.9804 | 55.7175 | 60.9250 | 66.6488 | 72.9390 |
| 17 | 25.8404 | 28.2129 | 30.8402 | 33.7502 | 36.9737 | 40.5447 | 44.5008 | 48.8837 | 53.7391 | 59.1176 | 65.0751 | 71.6730 | 78.9792 | 87.0680 |
| 18 | 28.1324 | 30.9056 | 33.9990 | 374502 | 41.3013 | 45.5992 | 50.3959 | 55.7497 | 61.7251 | 68.3941 | 75.8364 | 84.1407 | 93.4056 | 103.7403 |
| 19 | 30.5390 | 33.7600 | 37.3790 | 41.4463 | 46.0185 | 51.1591 | 56.9395 | 63.4397 | 70.7494 | 78.9692 | 98.2118 | 98.6032 | 110.2846 | 123.4135 |
| 20 | 33.0660 | 36.7856 | 40.9955 | 45.7620 | 51.1601 | 57.2750 | 64.2028 | 72.0524 | 80.9468 | 91.0249 | 102.4436 | 115.3797 | 130.0329 | 146.6280 |
| 21 | 35.7192 | 39.9927 | 44.8652 | 50.4229 | 56.7645 | 64.0025 | 72.2651 | 81.6987 | 92.4699 | 104.7684 | 118.8101 | 134.8405 | 153.1383 | 174.0210 |
| 22 | 38.5052 | 43.3923 | 49.0057 | 55.4568 | 62.8733 | 71.4027 | 81.2143 | 92.5026 | 105.4910 | 120.4360 | 137.6316 | 157.4150 | 180.1721 | 206.3448 |
| 23 | 41.4305 | 46.9958 | 53.4361 | 60.8933 | 69.5319 | 79.5430 | 91.1479 | 104.6029 | 120.2048 | 138.2970 | 159.2764 | 183.6014 | 211.8013 | 244.4868 |
| 24 | 44.5020 | 50.8156 | 58.1767 | 66.7648 | 76.7898 | 88.4973 | 102.1742 | 118.1552 | 136.8315 | 158.6586 | 184.1678 | 213.9776 | 248.8076 | 289.4945 |
| 25 | 47.7271 | 54.8645 | 63.2490 | 73.1059 | 84.7009 | 98.3471 | 114.4133 | 133.3339 | 155.6196 | 181.8708 | 212.7930 | 292.1049 | 342.6035 | |
| 26 | 51.1134 | 59.1564 | 68.6765 | 79.9544 | 93.3240 | 109.1818 | 127.9988 | 150.3339 | 176.8501 | 208.3327 | 245.7120 | 290.0883 | 342.7627 | 405.2721 |
| 27 | 54.6691 | 63.7058 | 74.4838 | 87.3508 | 102.7231 | 121.0999 | 143.0786 | 169.3749 | 200.8406 | 238.4993 | 283.5688 | 337.5024 | 402.0323 | 479.2211 |
| 28 | 58.4026 | 68.5281 | 80.6977 | 95.3388 | 112.9682 | 134.2099 | 159.8172 | 190.6989 | 227.9499 | 272.8892 | 327.1041 | 392.5028 | 471.3778 | 566.4809 |
| 29 | 62.3227 | 73.6398 | 87.3465 | 103.9659 | 124.1354 | 148.6309 | 178.3971 | 214.5828 | 258.5834 | 312.0937 | 377.1697 | 456.3032 | 552.5121 | 669.4475 |
| 30 | 66.4388 | 79.0582 | 94.4608 | 113.2832 | 136.3075 | 164.4940 | 199.0209 | 241.3327 | 293.1992 | 356.7868 | 434.7451 | 530.3117 | 647.4391 | 790.9480 |
| 40 | 120.7998 | 154.7620 | 199.6351 | 259.0565 | 337.8824 | 442.5926 | 581.8261 | 767.0914 | 1013.7042 | 1342.0251 | 1779.0903 | 2360.7572 | 3134.5218 | 4163.2130 |
| 50 | 209.3438 | 290.3359 | 406.5289 | 573.7702 | 815.0836 | 1163.9085 | 1668.7712 | 2400.0182 | 3459.5071 | 4994.5213 | 7217.7163 | 10435.6488 | 15089.5017 | 21813.0937 |

**Example** - $100.00 invested per year over a 20 year period at annual compound interest rate of 7% would accumulate to (100) (40.9955) = $4,099.55.

## Table VII

### Capital Repayment Factor

**Annual Payment That Will Repay A $1 Loan In N Years With Compund Interest On The Unpaid Balance**

**Interest Rate (%)**

| YEARS | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.0500 | 1.0600 | 1.0700 | 1.0800 | 1.0900 | 1.1000 | 1.1100 | 1.1200 | 1.1300 | 10.1400 | 1.1500 | 1.1600 | 1.1700 | 1.1800 | 1.1900 | 1.2000 |
| 2 | 0.5378 | 0.5454 | 0.5531 | 0.5608 | 0.5685 | 0.5762 | 0.5839 | 0.5917 | 0.5995 | .6074 | .6150 | .6231 | .6308 | .6388 | 0.6466 | 0.6546 |
| 3 | 0.3672 | 0.3741 | 0.3811 | 0.3880 | 0.3951 | 0.4021 | 0.4092 | 0.4163 | 0.4235 | .4308 | .4380 | .4453 | .4526 | .4599 | 0.4673 | 0.4747 |
| 4 | 0.2820 | 0.2886 | 0.2952 | 0.3019 | 0.3087 | 0.3155 | 0.3223 | 0.3292 | 0.3362 | .3432 | .3503 | .3574 | .3646 | .3717 | 0.3790 | 0.3863 |
| 5 | 0.2310 | 0.2374 | 0.2439 | 0.2505 | 0.2571 | 0.2638 | 0.2706 | 0.2774 | 0.2843 | .2913 | .2983 | .3054 | .3126 | .3198 | 0.3271 | 0.3344 |
| 6 | 0.1970 | 0.2034 | 0.2098 | 0.2163 | 0.2229 | 0.2296 | 0.2364 | 0.2432 | 0.2502 | .2572 | .2642 | .2714 | .2786 | .2859 | 0.2933 | 0.3007 |
| 7 | 0.1728 | 0.1791 | 0.1856 | 0.1921 | 0.1987 | 0.2054 | 0.2122 | 0.2191 | 0.2261 | .2332 | .2402 | .2476 | .2549 | .2624 | 0.2699 | 0.2774 |
| 8 | 0.1547 | 0.1610 | 0.1675 | 0.1740 | 0.1807 | 0.1874 | 0.1943 | 0.2013 | 0.2084 | .2156 | .2228 | .2302 | .2377 | .2452 | 0.2402 | 0.2481 |
| 9 | 0.1407 | 0.1470 | 0.1535 | 0.1601 | 0.1668 | 0.1736 | 0.1806 | 0.1877 | 0.1949 | .2022 | .2096 | .2171 | .2247 | .2324 | 0.2402 | 0.2481 |
| 10 | 0.1295 | 0.1359 | 0.1424 | 0.1490 | 0.1558 | 0.1627 | 0.1698 | 0.1770 | 0.1843 | .1917 | .1993 | .2069 | .2146 | .2225 | 0.2305 | 0.2385 |
| 11 | 0.1204 | 0.1268 | 0.1334 | 0.1401 | 0.1469 | 0.1540 | 0.1611 | 0.1684 | 0.1758 | .1834 | .1911 | .1989 | .2068 | .2148 | 0.2229 | 0.2311 |
| 12 | 0.1128 | 0.1193 | 0.1259 | 0.1327 | 0.1397 | 0.1468 | 0.1540 | 0.1614 | 0.1690 | .1767 | .1845 | .1924 | .2005 | .2086 | 0.2169 | 0.2253 |
| 13 | 0.1065 | 0.1130 | 0.1197 | 0.1265 | 0.1336 | 0.1408 | 0.1482 | 0.1557 | 0.1634 | .1712 | .1791 | .1872 | .1954 | .2037 | 0.2121 | 0.2206 |
| 14 | 0.1010 | 0.1076 | 0.1143 | 0.1213 | 0.1284 | 0.1357 | 0.1432 | 0.1509 | 0.1587 | .1666 | .1747 | .1829 | .1912 | .1997 | 0.2082 | 0.2169 |
| 15 | 0.0963 | 0.1030 | 0.1098 | 0.1168 | 0.1241 | 0.1315 | 0.1391 | 0.1468 | 0.1547 | .1628 | .1710 | .1749 | .1878 | .1964 | 0.2051 | 0.2139 |
| 16 | 0.0923 | 0.990 | 0.1059 | 0.1130 | 0.1203 | 0.1278 | 0.1355 | 0.1434 | 0.1514 | .1596 | .1680 | .1764 | .1850 | .1937 | 0.2025 | 0.2114 |
| 17 | 0.0887 | 0.0954 | 0.1024 | 0.1096 | 0.1170 | 0.1247 | 0.1325 | 0.1405 | 0.1486 | .1569 | .1654 | .1740 | .1827 | .1915 | 0.2004 | 0.2094 |
| 18 | 0.0855 | 0.0924 | 0.0994 | 0.1067 | 0.1142 | 0.1219 | 0.1298 | 0.1379 | 0.1462 | .1546 | .1632 | .1719 | .1807 | .1896 | 0.1987 | 0.2078 |
| 19 | 0.9827 | 0.0896 | 0.0968 | 0.1041 | 0.1117 | 0.1195 | 0.1276 | 0.1358 | 0.1441 | .1527 | .1613 | .1701 | .1791 | .1881 | 0.1972 | 0.2065 |
| 20 | 0.0802 | 0.0872 | 0.0944 | 0.1019 | 0.1095 | 0.1175 | 0.1256 | 0.1339 | 0.1424 | .1510 | .1598 | .1687 | .1777 | .1868 | 0.1960 | 0.2054 |
| 21 | 0.0780 | 0.0850 | 0.0923 | 0.0998 | 0.1076 | 0.1156 | 0.1238 | 0.1322 | 0.1408 | .1495 | .1584 | .1674 | .1765 | .1857 | 0.1951 | 0.2044 |
| 22 | 0.0760 | 0.0830 | 0.0904 | 0.0980 | 0.1059 | 0.1140 | 0.1223 | 0.1308 | 0.1385 | .1483 | .1573 | .1664 | .1755 | .1848 | 0.1942 | 0.2037 |
| 23 | 0.0741 | 0.0813 | 0.0887 | 0.0964 | 0.1044 | 0.1126 | 0.1210 | 0.1296 | 0.1383 | .1472 | .1563 | .1654 | .1747 | .1841 | 0.1935 | 0.2031 |
| 24 | 0.0725 | 0.0797 | 0.0872 | 0.0950 | 0.1030 | 0.1113 | 0.1198 | 0.1285 | 0.1373 | .1463 | .1554 | .1647 | .1740 | .1834 | 0.1930 | 0.2025 |
| 25 | 0.0710 | 0.0782 | 0.0858 | 0.0937 | 0.1018 | 0.1102 | 0.1187 | 0.1275 | 0.1364 | .1455 | .1547 | .1640 | .1734 | .1829 | 0.1925 | 0.2021 |
| 26 | 0.0696 | 0.0769 | 0.0846 | 0.1007 | 0.0925 | 0.1092 | 0.1178 | 0.1267 | 0.1357 | .1448 | .1541 | .1634 | .1729 | .1825 | 0.1921 | 0.2018 |
| 27 | 0.0683 | 0.0757 | 0.0834 | 0.0914 | 0.0997 | 0.1083 | 0.1170 | 0.1259 | 0.1350 | .1442 | .1535 | .1630 | .1725 | .1821 | 0.1917 | 0.2015 |
| 28 | 0.0671 | 0.0746 | 0.0824 | 0.0905 | 0.0989 | 0.1075 | 0.1163 | 0.1252 | 0.1344 | .1437 | .1531 | .1626 | .1721 | .1818 | 0.1915 | 0.2012 |
| 29 | 0.0660 | 0.0736 | 0.0814 | 0.0896 | 0.0981 | 0.1067 | 0.1156 | 0.1247 | 0.1339 | .1532 | .1527 | .1622 | .1718 | .1815 | 0.1912 | 0.2010 |
| 30 | 0.0651 | 0.0726 | 0.0806 | 0.0888 | 0.0973 | 0.1061 | 0.1150 | 0.1241 | 0.1334 | .1428 | .1523 | .1619 | .1715 | .1813 | 0.1910 | 0.2008 |
| 40 | 0.0583 | 0.0665 | 0.0750 | 0.0839 | 0.0930 | 0.1023 | 0.0117 | 0.1213 | 0.1310 | .1407 | .1506 | .1604 | .1703 | .1802 | 0.1902 | 0.7001 |
| 50 | 0.0548 | 0.0634 | 0.0725 | 0.0817 | 0.0912 | 0.1009 | 0.1106 | 0.1204 | 0.1303 | .1402 | .1501 | .1601 | .1701 | .1800 | 0.1900 | 0.2000 |

**Example** - A farmer wishes to buy a truck for $20,000.00 with payments over a 5 year period and interest at 12%. His annual payments will be ($20,000.00 × 0.2774) = $5548.00/yr. for 5 years.

## Glossary of Investment Terms

| | |
|---|---|
| **Accrued** | Interest Interest accumulated since the last interest payment date. |
| **Amortization** | The calculation of equal payments throughout the repayment period of a loan. The ratio of principal to interest increases but payments remain constant. |
| **Averages and Indexes** | Statistical tools that measure the state of the stock market or the economy, based on the performance of stock or other meaningful indicators. For example, the Toronto Stock Exchange and Montreal Stock Exchange Industrial Index, the Consumer Price Index, Dow Jones Industrial Average. |
| **Bid and Asked Prices** | The "bid" price represents what a prospective buyer is willing to pay; "asked" price is the price the seller will accept on bonds, stocks and commodity markets. The two prices are referred to as a "Quotation" or "Quote". |
| **Blue Chip Stocks** | Stocks of long established companies with consistent dividend performance. |
| **Bond** | A certificate as evidence of a debt on which interest is paid for a specific length of time and the face value is repaid by the issuer upon maturity. Assets are pledged as security for the loan. |
| **Capital** | 1) to a business man it represents the resources needed to produce other products: equipment, buildings, etc.<br><br>2) to an investor, it means the financial assets he has invested. |
| **Capital Stock** | Common and preferred shares which represent an ownership interest in a limited company. |
| **Certificate** | The document which is evidence of ownership of a bond or stock. |
| **Collateral** | Assets pledged to secure repayment of a loan. |
| **Commission** | The fee for buying and selling securities or property. |
| **Common Stock** (Common Shares) | Securities representing ownership in corporation with voting privileges. |
| **Convertible** | A privilege added to some bonds, debentures, or preferred shares so that they may be exchanged for a specified number of common shares in the same company. |
| **Coupon** | Entitles the holder to a specified interest payment when clipped from a bond certificate and presented at a bank on or after its due date. |
| **Investment Dealer** | An individual or securities firm usually acting as a principle, i.e., owning the securities he buys and sells unlike a stockbroker who only acts as an agent on behalf of clients. Dealers may also create and sell issues of stocks and bonds. |
| **Debenture** | A certificate of indebtedness of a government or company backed only by the general credit of the issuer. |
| **Dividend** | An amount distributed out of a company's profit to its shareholders in proportion to the number of shares they hold. |
| **Equity** | The difference between the assets and the liabilities of a business. |
| **Face Value** | The value of a bond or preferred share that appears on the face of the certificate and is ordinarily the amount the issuing company promises to pay at maturity. It is no indication of market value. |
| **Interest** | Payment a borrower pays a lender for the use of his money. |
| **Investing** | a) to put money into a business, real estate, bank account, stocks, etc. for the purpose of obtaining an income or profit. |

| | |
|---|---|
| | b) to spend time, effort, etc. with the expectation of some satisfaction. |
| **Investment Trust, Company, or Fund** | A company which uses its capital to invest in other companies. |
| **Investor** | One whose principal concern in the purchase of an investment is to minimize risk, in contrast to the speculator who is prepared to accept calculated risk in the hope of making better than average profits and the gambler who is prepared to take even greater risks. |
| **Leading Indicators** | A selection of statistics that indicate trends in business and in the economy as a whole. These relate to employment, capital investment, business starts and failures, profits, stock prices, some commodity prices, etc. |
| **Limited Liability** | The word "limited" or "ltd." at the end of a Canadian company's name means the shareholders are not liable for company debts beyond what they paid for their shares. |
| **Liquidation** | 1) the process of converting an investment into cash.<br><br>2) where cash remaining after the break-up of a company and the payment of debts is distributed to the shareholders. |
| **Liquidity** | The ability of an investment to be converted into cash. |
| **Long Term Bond** | A bond maturing after more than 15 years. |
| **Margin** | The amount paid by the customer when he uses credit from the broker to buy a security, the balance being advanced by the broker against acceptable collateral. |
| **Marketable** | Easily bought or sold. |
| **Maturity** | The date on which a bond or debenture comes due and is to be paid off. |
| **Medium Term Bond** | A bond maturing in 3 to 15 years. |
| **Member firm** | A stock brokerage firm or investment dealer having a seat on a particular stock exchange or membership in the Investment Dealers Association of Canada. |
| **New Issue** | A stock or bond sold by a corporation or government for the first time to raise money for various purposes. |
| **Note** | A corporation's unsecured promise to pay. |
| **Par Value** | The stated value of a bond or stock. It is ordinarily stated for bonds as an index equal to 10. Preferred stock par value is often stated as being on par, above par (premium) or below par (discount). |
| **Portfolio - (investment portfolio)** | A group of investment; stocks, bonds, etc. held by an investor (individual or company). |
| **Preferred Stock** | A class of share that entitles the owners to certain preferences over common shareholders. |
| **Premium** | The amount by which the market price of a preferred stock or bond is above its par value. |
| **Principal** | 1) the person for whom a broker executes an order, or a dealer buying or selling for his own account.<br><br>2) the term "principal" may also refer to a person's capital or to the face amount of a bond. |
| **Prospectus** | A legal document prepared in compliance with the provincial securities commission requirements describing the securities offered for sale to the public. |

**Proxy**

Written authorization given by a shareholder to someone else, who need not be a shareholder, to represent him and use his share voting privilege at a shareholder's meeting.

**Quotation or Quote**

The highest bid to buy and the lowest offer to sell a security at a given time. For example: A quote of 45 1/4 - 45 1/2 means 45 1/4 is the highest price the buyer will pay and 45 1/2 the lowest price the seller will take.

**Rally**

A brisk rise following a decline in the general price level of the market or in an individual security.

**Redemption Price**

The price at which a bond may be redeemed before maturity, at the option of the issuing company.

**Registered Tax Deferral Savings Plan**

Government approved savings plans (such as R.R.S.P.'s) to which funds contributed by individuals are tax deductible within certain limits. Earnings may accumulate tax free until deregistration when all funds become taxable.

**Retained Earnings**

The portion of net profits not paid out as dividends.

**Securities**

1) something given as a pledge of repayment, fulfillment of a promise, etc., guarantee.

2) any evidence of debt or ownership, especially a stock or bond certificate.

**Securities Act**

A provincial Act administered by the Securities Commission in each province, which sets down the regulations under which securities may be issued to the public.

**Short Term Bond**

A bond maturing within three years.

**Speculator**

One who is prepared to accept calculated risks in the marketplace for short term capital gain.

**Spread**

The gap between the bid and asked price.

**Stockbroker**

One who acts as an agent in the buying and selling of securities, and charges a commission for his services.

**Stock Dividend**

Instead of a money dividend paid on common stock, the shareholder receives new common shares. His proportion of ownership of the company still remains the same though, but it is worth more.

**Treasury Bills**

Short-term government debt, usually issued in large denominations and sold chiefly to large institutional investors. They are sold at a discount so that the difference between issue price and par value at maturity represents the lender's gain instead of interest.

**Voting Right**

The stockholder's right to vote his stock in the affairs of his company. Most common shares have one vote each. The right to vote may be delegated by the stockholder to any person (See Proxy).

**Yield (Bond and Stock)**

Return on an investment. A stock yield is the annual dividend expressed as a percentage of the current market price. A bond yield is more complicated involving annual interest payments and change in market value.